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AUDITOR-GENERAL
SOUTH AFRICA

Audit Report

Alfred Nzo District Municipality

Report on the Audit of the Financial Statements for the year ended 30 June 2018

REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND COUNCIL ON ALFRED NZO DISTRICT MUNICIPALITY

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the consolidated and separate financial statements of the Alfred Nzo District Municipality set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2012, the consolidated and separate statement of financial performance, changes in net assets and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the consolidated financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010 as amended) (DoRA), as well as such internal control as management determines necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the consolidated and separate financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Cash and cash equivalents

4. The municipality could not provide sufficient appropriate audit evidence to support the adjustments totalling R22,7 million, between cash and cash equivalents stated in the statement of financial position of the financial statements submitted for audit and the adjusted financial statements. Furthermore, the bank reconciliation had reconciling items amounting to R4 million that were not supported by sufficient appropriate audit evidence. In addition, a difference amounting to R1 million between the trial balance and the financial statements was not supported by sufficient appropriate audit evidence. This is a result of the bank reconciliation not being performed properly and regularly. I was unable to confirm these amounts by alternative means. Consequently, I was unable to determine whether any adjustments relating to cash and cash equivalents in the financial statements were necessary.

Receivables

5. As disclosed in note 4.3 to the financial statements, material losses amounting to R16,9 million were incurred as a result of provision made for impairment of debtors. This amount is understated by R21,2 million as no assessment was made for the indicators of impairment in the current year. Consequently, accounts receivable are overstated by

R21,2 million and expenditure is understated by the same amount.

6. The municipality did not charge interest on overdue receivables, as required by section 64(2)(g) of the MFMA. Due to the lack of systems and sufficient appropriate audit evidence, it was impracticable to determine the full extent of the understatement of interest earned on outstanding receivables as disclosed in note 4 to the financial statements even by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the interest earned disclosed on the statement of financial performance.
7. The municipality could not provide a debtors listing for a balance of R7,4 million relating to receivables from non-exchange transactions to enable me to audit this balance. Furthermore, the municipality could not provide sufficient appropriate audit evidence to support adjustments totalling R5,4 million between receivables stated in the statement of financial position of the financial statements submitted for audit and the adjusted financial statements. In addition, journals totalling R2 million did not have sufficient appropriate audit evidence. I was unable to confirm these amounts and adjustments by alternative means. Consequently, I was unable to determine whether any adjustments relating to trade receivable from exchange transactions and trade receivables from non-exchange transactions in the financial statements were necessary.

Payables

8. Retentions amounting to R693 618 were incorrectly calculated and contracts for retentions amounting to R514 313 were not provided. Furthermore, retentions amounting to R2,7 million were not included in the retentions year-end balance. As a result, retentions as well as cash and cash equivalents were understated by R2,9 million. The municipality could not provide sufficient appropriate audit evidence to support retentions amounting to R30 million. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments to the retentions balance were necessary.
9. Invoices totalling R1,6 million were not accounted for in the accruals listing. Consequently, accruals and expenditure were understated by the same amount. The municipality could not provide sufficient appropriate audit evidence to support other creditors totalling R8,5 million. Furthermore, adjustments to trade payables and other creditors amounting to R14 million and R5 million, respectively, between the financial statements submitted for audit and the adjusted financial statements were not supported by sufficient appropriate audit evidence. I was unable to confirm the adjustments by alternative means. Consequently, I was unable to determine whether any adjustments to trade payables and other creditors balances in the financial statements were necessary.

Property, plant and equipment

10. Infrastructure assets amounting to R20 million and non-infrastructure assets amounting to R7,4 million could not be physically verified. In addition, non-infrastructure assets amounting to R2,8 million could not be traced to the assets register. Furthermore, adjustments to infrastructure assets amounting to R10,8 million between the financial statements submitted for audit and the adjusted financial statements were not supported by sufficient appropriate audit evidence. I was unable to confirm the assets and the adjustments by alternative means. Consequently, I was unable to determine whether any adjustments to property, plant and equipment balance in the financial statements were necessary.

The municipality could not provide supporting documentation for journals relating to work in progress amounting to R44,5 million. I was unable to confirm the journals by alternative means. Consequently, I was unable to determine whether any adjustments to the property, plant and equipment (work in progress) balance in the financial statements were necessary.

Value-added tax receivable

11. The value-added tax (VAT) receivable disclosed in the annual financial statements did not include VAT relating to accruals and receivables. Consequently, VAT receivable and accumulated surplus were understated by R2,7 million. Furthermore, the municipality could not provide invoices amounting to R10 million as audit evidence that only VAT-compliant invoices were claimed from the South African Revenue Service (SARS). In addition, the municipality could not provide sufficient appropriate audit evidence to support adjustments totalling R718 772 between VAT receivable stated in the statement of financial position of the financial statements submitted for audit and the adjusted financial statements. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments to the VAT receivable balance in the financial statements were necessary.

Accumulated surplus

12. The municipality could not provide supporting documentation for correction of prior period errors and change in accounting policy amounting to R13,7 million. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments to the accumulated surplus balance in the financial statements were necessary.

Revenue

13. The municipality transferred grants liability to revenue amounting R923 824 for expenditure, which did not meet the conditions of the grant. Consequently, revenue was overstated by R923 824 and liabilities were understated by the same amount. The municipality could not provide sufficient appropriate audit evidence to support the adjustments totalling R480 million, between government grants and subsidies received stated in the statement of financial performance of the financial statements submitted for audit and the adjusted financial statements. Furthermore, the municipality could not provide sufficient appropriate audit evidence to support the transactions amounting to R5 million. I was unable to confirm the transactions by alternative means. Consequently, I was unable to determine whether any adjustments to revenue in the financial statements were necessary.

Expenditure

14. The municipality could not provide sufficient appropriate audit evidence to support grants and subsidies paid amounting to R117 million and journals amounting to R23 million between contracted services and grants and subsidies paid. I was unable to confirm the transactions by alternative means. Consequently, I was unable to determine whether any adjustments to grants and subsidies paid in the financial statements were necessary.
15. Expenditure relating to prior year was incorrectly recorded in the current year, as a result expenditure was overstated by R5 million and accumulated surplus was understated by the same amount. In addition, the municipality could not provide sufficient appropriate audit evidence to support adjustments totalling R1 million between

expenditure stated in the statement of financial performance of the financial statements submitted for audit and the adjusted financial statements. I was unable to confirm the transactions by alternative means. Consequently, I was unable to determine whether any adjustments to expenditure in the financial statements were necessary.

16. Expenditure amounting to R3,2 million was misclassified under expenditure votes instead of subsistence and travel. Consequently, general expenditure was overstated by R3,2 million and subsistence and travel was understated by the same amount. In addition, expenditure was recorded in the general ledger inclusive of VAT. Consequently, expenditure was overstated and VAT input was understated by R1,1 million.
17. Expenditure relating to claims was incorrectly calculated, as a result subsistence and travel was overstated by R673 186 and debtors understated by the same amount. The municipality could not provide details of vehicles that were used to reimburse employees for subsistence and travel amounting to R563 338. Furthermore, invoices relating to subsistence and travel amounting to R2,3 million were not attached to payment vouchers. I was unable to confirm the transactions by alternative means. Consequently, I was unable to determine whether any adjustments to expenditure in the financial statements were necessary.

Employee cost

18. The amount disclosed in the annual financial statements for councillors' remuneration did not agree to the payroll system by an amount of R1,5 million as some of the councillors' remuneration was not included in the annual financial statements. As a result, the councillors' remuneration was understated by R1,5 million and the bank account was overstated by the same amount. Furthermore, bonuses amounting to R407 217 were paid twice, overtime forms amounting to R430 769 were not on employee files, documentation relating to deductions on employee salaries did not agree to supporting documentation by R1,2 million and salary increases amounting to R841 664 were not supported by sufficient appropriate audit evidence. The municipality could not provide sufficient appropriate audit evidence to support allowances of R8,3 million. I was unable to confirm the transactions by alternative means. Consequently, I was unable to determine whether any adjustments to employee costs were necessary.

Irregular expenditure

19. Section 125(2) of the MFMA requires the financial statements of the municipality to disclose material irregular expenditure that occurred during the financial year. Payments amounting to R185 million were irregular as they were made in contravention of the supply chain management (SCM) requirements. These amounts were not included in the irregular expenditure disclosure note 46.3 to the consolidated and separate financial statements. The municipality could not provide supporting documentation for irregular expenditure of R33 million disclosed in note 46.3 of the annual financial statements. Consequently, irregular expenditure as disclosed is understated by at least this amount. It was not possible, however, to determine the full extent of the understatement as not all the documents were submitted for testing and there was no system of control in place to identify all irregular expenditure incurred. I was unable to confirm the transactions by alternative means. Consequently, I was unable to determine whether any adjustments to irregular expenditure were necessary.

Unauthorised expenditure

20. Section 125(2) of the MFMA requires the financial statements of the municipality to disclose material unauthorised expenditure that had occurred during the financial year. Unauthorised expenditure of R389 million was incurred as a result of overspending on the votes. This unauthorised expenditure was not disclosed in note 46.1 to the financial statements.

Employee benefits

21. The municipality did not provide sufficient appropriate audit evidence relating to employee benefits of R6 million as disclosed in note 50 of the annual financial statements. I was unable to confirm the transactions by alternative means. Consequently, I was unable to determine whether any adjustments to employee benefits were necessary.

Corresponding figures

22. During 2010-11 I was unable to obtain sufficient appropriate audit evidence concerning the following:

- Revenue from exchange transactions – R 1,7 million
- Expenditure – R44 million
- Employee costs – R 3,7 million
- Interest income – R1,3 million
- Government grants and subsidies received – R25 million
- Provision for impairment – R7,6 million
- Property, plant and equipment – R3,8 million
- Capital work in progress – R20 million
- Cash and cash equivalents – R2,3 million
- Trade and receivables – R17,8 million
- Trade and other receivables from non-exchange – R1,4 million
- Trade and other payables from exchange – R12,2 million
- Unspent conditional grants and receipts – R5 million
- Infrastructure assets – R32 million
- Accumulated surplus – R63 million
- Irregular expenditure – R36 million
- Commitments – R14 million

- Inventory – R2 million
- Retirement benefits – R3,7 million
- Unauthorised expenditure – R13 million

I was unable to obtain sufficient appropriate audit evidence for the above by alternative means. Consequently, I was unable to determine whether any adjustments to these amounts and the accumulated surplus were necessary. My audit opinion on the financial statements for the period 2010-11 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of these matters on the comparability of the current period's figures.

Accumulation of immaterial uncorrected misstatements

23. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position:

- Leave provision reflected as R6,3 million is overstated by R1,1 million

In addition, I was unable to obtain sufficient appropriate audit evidence and I was unable to confirm or verify the following elements by alternative means.

- Inventory reflected as R3,2 million

As a result, I was unable to determine whether any adjustments to these elements were necessary.

Water services

24. The municipality was affected by the demarcations which were stipulated in MFMA circular 54. As a result, Mbizana and Ntabankulu local municipalities were transferred from OR Tambo District Municipality to Alfred Nzo District Municipality effective from 1 July 2011. The financial implications of the transfer were that all assets, liabilities, revenue and expenses relating to water services of these two municipalities should be transferred as well. The Transitional Facilitation Committee, which was setup to facilitate the transfer process, had not agreed on the assets, liabilities, revenue and expenses to be transferred at the audit report date and as a result we were unable to determine if all the assets, liabilities, revenue and expenditure that were to be transferred to Alfred Nzo District Municipality had been included in the annual financial statements. I was unable to confirm the full extent of the transfers which were to be made by alternative means. Consequently, I was unable to determine whether any adjustments to assets, liabilities, revenue and expenses were necessary.

Disclaimer of opinion

25. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the consolidated and separate financial statements.
26. Due to the limitation imposed by management on the scope of the audit, I have disclaimed my opinion on the financial statements. But for the legislated requirement to

perform the audit of the municipality, I would have withdrawn from the engagement in terms of the International Standards of Auditing (ISAs).

Emphasis of matters

27. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material underspending of the budget

28. The municipal entity has materially underspent its budget. The underspending as at year-end amounted to R15 million, which represents a 71% underspending of the approved budget. The impact of such underspending is that objectives of the entity were not achieved.

Additional matter

29. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

30. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

31. In accordance with the PAA and the *General notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

32. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
33. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information* (FMPPI).

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

34. The material findings are as follows:

Usefulness of information

Presentation

Measures taken to improve performance not supported by sufficient appropriate evidence

35. Section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires the disclosure of measures taken to improve performance in the annual performance report where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for all measures taken to improve performance as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the validity of the measures taken to improve performance.

Consistency

Reported objectives, indicators and targets not consistent with planned objectives, indicators and targets

36. The MSA, section 41(c), requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 98% of the reported objectives, indicators and targets are not consistent with the objectives, indicators, and targets as per the approved integrated development plan. This is due to the lack of adequate training given to municipal officials on how to report against planned objectives, indicators and targets as per the approved integrated development plan.

Measurability

Performance targets not specific

37. The FMPPI requires performance targets to be specific in clearly identifying the nature and required level of performance. A total of 73% of the targets in the annual performance report relevant to basic service delivery and good governance were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

Performance target not measurable

38. The FMPPI requires performance targets to be measurable. The required performance could not be measured for a total of 73% of the reported targets relevant to basic service delivery and good governance. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

Performance target not well defined

39. The FMPPI requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 100% of the indicators relevant to basic service delivery and good governance

and public participation development objectives were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

Indicators not verifiable

40. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 100% of the indicators relevant to basic service Delivery and good governance and public participation development objectives were not verifiable, in that valid processes and systems that produce the information on actual performance did not exist. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

Relevance

Performance indicators not relevant

41. The FMPPI requires that the indicator should relate logically and directly to an aspect of the institution's mandate and the realisation of strategic goals and objectives. A total of 100% of indicators did not relate logically and directly to an aspect of the institution's mandate and realisation of strategic goals and objectives as per the five-year integrated development plan. This was due to the lack of development and implementation of proper performance planning. Management was unable to provide explanations as to how the performance indicators and targets included in the annual integrated development plan relate logically and directly to an aspect of the institution's mandate because performance indicators and targets, as they appear on the integrated development plan, were not taken into account when the service delivery and budget implementation plan was developed.

Reliability of information

Reliability of selected objectives in the annual performance report

Validity

Reported performance not valid

42. The FMPPI requires that processes and systems which produce the indicator should be verifiable. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity of the actual reported performance relevant to 67% of basic service delivery and good governance and public participation development priorities/objectives. This was due to limitations placed on the scope of my work due to the absence of information systems relating to performance reporting and the institution's records not permitting the application of alternative audit procedures.

Accuracy

Reported performance not accurate

43. The FMPPI requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy of the actual reported performance relevant to 67% of basic service delivery and good governance and public participation development priorities/objectives. This was due to limitations placed on the scope of my work due to the absence of information systems relating to performance reporting and the institution's records not permitting the application of alternative audit procedures.

Completeness

Source Information supporting actual performance not complete

44. The FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the completeness of the actual reported performance relevant to 67% of basic service delivery and good governance and public participation development priorities/objectives. This was due to limitations placed on the scope of my work due to the absence of information systems relating to performance reporting and the institution's records not permitting the application of alternative audit procedures.

Additional matter

45. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

46. All planned targets were not achieved during the year under review. This represents 100% of total planned targets that were not achieved during the year under review. Management did not conduct its operations or report on the planned targets and performance indicators, as set out in the integrated development plan.

Compliance with laws and regulations

47. I performed procedures to obtain evidence that the entity had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the *General notice* issued in terms of the PAA, are as follows

Strategic planning and performance management

48. The parent municipality with sole control of a municipal entity did not ensure that annual performance objectives and indicators for the municipal entity are established by agreement with the municipal entity and included in the municipal entity's multi-year business plan, as required by section 93B (a) of the Municipal Systems Act.
49. The municipality did not give effect to its integrated development plan and conduct its

affairs in a manner which was consistent with its integrated development plan, as required by section 36 of the MSA and Municipal Planning and Performance Management Regulation 6.

50. The municipality's performance management system was not in line with the priorities, objectives, indicators and targets contained in its integrated development plan and did not relate to the municipality's performance management processes, as required by section 38 (a) of the MSA and Municipal Planning and Performance Management Regulation 7(2)(c) and (g).
51. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.
52. The municipality did not set measurable performance targets with regard to each development priority and objective, monitor performance, with regard to each of those development priorities and objectives and against the key performance indicators and targets set and measure and review performance at least once per year, with regard to each of those development priorities and objectives and against the key performance indicators and targets set, as required by section 41 of the MSA.
53. The performance of Alfred Nzo Development Agency was not monitored and annually reviewed, as part of the annual budget process, as required by section 93B(b) of the MSA.
54. The accounting officer of the municipal entity did not, within six months after the end of the financial year or on such earlier date as agreed between the entity and its parent municipality, submit the entity's annual report for that financial year to the municipal manager of the entity's parent municipality, as per requirements of section 127(1) of the MFMA.

Budgets

55. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.
56. Sufficient appropriate audit evidence could not be obtained that monthly budget statements were submitted to the mayor and the relevant provincial treasury, as required by section 71(1) of the MFMA.
57. The accounting officer of the municipal entity did not submit monthly statements on the state of the entity's budget in the prescribed format to the accounting officer of the parent municipality reflecting, where necessary, an explanation of any material variances from the service delivery agreements and the business plan, as per requirements of section 87(11)(g) of the MFMA.

Annual financial statements, performance and annual reports

58. The accounting officer did not make public the council's oversight report on the 2010-11 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.
59. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue expenditure, disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.
60. The accounting officer did not submit the entity's annual report for that financial year to the municipal manager of the entity's parent company within six months after the end of the financial year, as per the requirements of section 127(2) of the MFMA.

Human resources

61. The performance agreement of the chief financial officer, who did not have the minimum competencies, did not include the attainment of minimum competencies as a performance target, as required by Municipal Regulations on Minimum Competency Levels Regulation 16(2) .
62. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.

Audit committees

63. An audit committee was not in place for the whole year, as required by section 166(1) of the MFMA.
64. A performance audit committee was not in place and the audit committee established in terms of the MFMA, section 166(1), was not used for this function, as required by Municipal Planning and Performance Management Regulation 14(2)(a).
65. The audit committee did not review the quarterly internal audit reports on performance measurement, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(i).
66. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(iii).

Internal audit unit

67. The internal audit unit did not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on

general performance indicators, as required by Municipal Planning and Performance Management Regulation 14(1)(b).

- 68. The internal audit unit did not audit the performance measurements on a continuous basis and submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14(1)(c).
- 69. An internal audit unit was not established by the municipal entity, as required by section 165(1) of the MFMA.

Procurement and contract management

- 70. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured by means of obtaining the required price quotations, as required by SCM regulation 17(a) and (c).
- 71. Quotations were accepted from prospective providers who were not registered on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).
- 72. Sufficient appropriate audit evidence could not be obtained that quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for quotations, as required by SCM regulations 21(b) and 28(1)(a) and preferential procurement regulations.
- 73. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
- 74. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
- 75. Contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act.
- 76. Quotations were awarded to providers whose tax matters had not been declared by SARS to be in order, as required by SCM regulation 43.
- 77. Quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

78. Awards were made to providers whose directors/principal shareholders are persons in service of other state institutions, in contravention of SCM regulation 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
79. Sufficient appropriate audit evidence could not be obtained that all quotations were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as information was not properly filed and submitted for audit purposes when required.

Conditional grants

80. The municipality did not timeously submit project registration forms, for projects it intended implementing in the financial year under review, to the department of local government, as required by the Division of Revenue Grant Framework, Gazette No. 34280.
81. The municipality did not submit project implementation plans to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No. 34280.

Revenue management

82. An adequate management, accounting and information system was not in place, which recognised revenue when it was earned, accounted for debtors, accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.
83. Interest was not charged on all accounts in arrears as, required by section 64(2)(g) of the MFMA.
84. Revenue received was not always reconciled on a weekly basis, as required by section 64(2)(h) of the MFMA.

Asset management

85. An adequate management, accounting and information system, which accounts for assets, was not in place, as required by section 63(2)(a) of the MFMA.
86. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Expenditure management

87. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
88. Sufficient appropriate audit evidence could not be obtained that payments had been approved by the accounting officer or a properly authorised official, as required by section 11(1) of the MFMA.

89. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.
90. An adequate management, accounting and information system was not in place, which recognised expenditure when it was incurred, accounted for creditors, accounted for payments made, as required by section 65(2)(b) of the MFMA.
91. The accounting officer did not take effective steps to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.
92. Irregular expenditure was not recovered from the liable person, as required by section 32(2) of the MFMA.

Internal control

93. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

94. Management established a formal code of conduct which addressed appropriate ethical and moral behaviour, but the code was not communicated to all staff and the staff were not trained to properly understand the code and implement it. As a result there were instances of management override of controls. The municipality does not perform monthly reports for performance information, compliance and financial statements that are reviewed by the accounting officer. The municipality did not have sufficient implemented controls and/or procedures at objective level for purposes of performance reporting. The municipality did not develop an adequate plan to address internal and external audit findings. Management does not have adequate documented policies and procedures to guide the operations of the municipality, resulting in numerous instances of non-compliance with the MFMA and other relevant laws and regulations, as detailed under the 'reporting on compliance with laws and regulations section' of this report

Financial and performance management

95. The municipality did not have a proper filing system that provides for the maintenance of information that supports the reported performance contained in the annual performance report. This includes information that relates to the collection, collation, verification, storing and reporting of actual performance information. As indicated in our engagement letter, we agreed that all information requested for purposes of the audit would be submitted within three working days of the request by the auditors. Despite this agreement, management did not supply the documentation requested within the agreed time frame in most instances. Non-compliance with laws and regulations reported above could have been prevented had compliance been properly reviewed and monitored. The financial statements contained numerous misstatements that were uncorrected. This was mainly due to staff members not fully understanding the requirements of the financial reporting framework and the municipality not preparing monthly financial statements.

Governance

96. The municipality did not conduct an adequate risk assessment, as required by the MFMA. Consequently, a number of control deficiencies were identified during the audit and resulted in the disclaimer of opinion on the financial statements and significant findings on the report on predetermined objectives. Although the municipality has an internal audit unit, it is not adequate for the purposes of the audit and the internal audit unit was not effective in ensuring that control deficiencies are identified and addressed. The audit committee did not function throughout the year. The committee was not in existence from September until December 2011.

Auditor-General.

East London

6 December 2012



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence